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United States
Department of Defense



Deliveries and Payments for the Defense Advanced
GPS Receivers Met Contract Terms, but Property
Accountability Needed Improvements

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Acronyms and Abbreviations

APSR	Accountable Property System of Record
ASA(ALT)	Assistant Secretary of the Army (Acquisition, Logistics, and Technology)
C4I/IO/Space	Command, Control, Communications, Computers, Intelligence, Information Operations, and Space
COPS	Customer-Owned Property System
DAGR	Defense Advanced Global Positioning System Receiver
DASN	Deputy Assistant Secretary of the Navy
DCMA	Defense Contract Management Agency
DFAS	Defense Finance and Accounting Service
DPAP	Defense Procurement and Acquisition Policy
EDA	Electronic Document Access
FAR	Federal Acquisition Regulation
GPS	Global Positioning System
MOCAS	Mechanization of Contract Administration Services
PBP	Performance-Based Payment
PCO	Procurement Contracting Officer
RCI	Rockwell Collins, Inc.
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics
WAWF	Wide Area Workflow



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

November 8, 2012

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (ACQUISITION,
LOGISTICS, AND TECHNOLOGY)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
NAVAL INSPECTOR GENERAL

SUBJECT: Deliveries and Payments for the Defense Advanced GPS Receivers Met Contract
Terms, but Property Accountability Needed Improvements
(Report No. DODIG-2013-018)

We are providing this report for review and comment. We considered comments on a draft of this report when preparing the final report. Rockwell Collins, Inc. (RCI), delivered Defense Advanced Global Positioning System Receivers (DAGRs) in accordance with contract terms, and the Defense Finance and Accounting Service correctly paid \$27.1 million in DAGR contract transactions we reviewed. However, personnel in the acquisition and logistics offices in each Military Department did not properly account for 75,727 DAGRs, valued at \$114.8 million, that were stored in an RCI warehouse. Furthermore, the procurement contracting officer, Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, inappropriately authorized \$102.4 million in performance-based payments on the DAGR contract.

Comments from the Deputy Assistant Secretary of the Army (Acquisition Policy and Logistics), who responded on behalf of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology); the Deputy Assistant Secretary of the Navy (C4I/IO/Space), who responded on behalf of the Assistant Secretary of the Navy (Research, Development, and Acquisition); and the Chief of Contracts, U.S. Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required. The Commander, Air Force Materiel Command, Logistics Readiness Division, did not respond to the draft report. DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request comments from the Commander, Air Force Materiel Command, Logistics Readiness Division, on Recommendations B.1, B.2.a, and B.2.b by December 7, 2012.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send a pdf file containing your comments to aud-colu@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.

A handwritten signature in cursive script, reading "Lorin T. Venable".

Lorin T. Venable, CPA
Acting Assistant Inspector General
DoD Payments and Accounting Operations



Results in Brief: Deliveries and Payments for the Defense Advanced GPS Receivers Met Contract Terms, but Property Accountability Needed Improvements

What We Did

We determined whether deliveries and payments for the Defense Advanced Global Positioning System (GPS) Receiver (DAGR) contract FA8807-09-C-0002 were made in accordance with contractual agreements and applicable criteria.

What We Found

Rockwell Collins, Inc. (RCI), delivered DAGRs in accordance with contract terms and the Defense Finance and Accounting Service (DFAS) correctly paid \$27.1 million in DAGR contract transactions we reviewed. As a result, the Military Departments received the DAGRs needed to meet mission requirements.

However, personnel in the acquisition and logistics offices in each Military Department did not properly account for 75,727 DAGRs, valued at \$114.8 million, that were stored in an RCI warehouse. Those responsible for the DAGR inventory inappropriately relied on the RCI inventory system. Additionally, a discrepancy of approximately 72,550 DAGRs existed between the number of DAGRs delivered by RCI and the total number of DAGRs reported by the Military Departments as deployed or stored outside RCI's customer-owned property system. This occurred because acquisition and logistics personnel did not maintain appropriate accountability records.

Each Military Department must properly manage its DAGR inventory to provide optimal support to the warfighter. In addition, the DoD accountability records must be easily retrievable

and reconcilable to the number produced. Furthermore, the procurement contracting officer (PCO), Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, inappropriately authorized \$102.4 million in performance-based payments (PBPs) on the DAGR contract. The contract did not meet Federal Acquisition Regulation requirements that would justify authorization of PBPs. The PCO used performance-based financing on this contract because the previous contract contained PBPs and because of the increased DoD emphasis on the use of this type of financing for fixed-price contracts. The use of PBPs cost the Military Departments \$49,788 in processing fees and created an unnecessary administrative burden.

What We Recommend

The Military Departments should:

- record all DAGRs in Government property systems, and
- initiate a complete inventory reconciliation.

In addition, the Chief of Contracts, U.S. Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, should provide PCOs with training on when and how to use PBPs.

Management Comments and Our Response

Comments received were responsive to the recommendations; however, the Commander, Air Force Materiel Command, Logistics Readiness Division, did not respond to Recommendations B.1, B.2.a, and B.2.b. Additional comments are requested. See the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of the Army (Acquisition, Logistics, and Technology) in coordination with the Deputy Chief of Staff of the Army (G4/Logistics)		B.1, B.2.a, B.2.b
Assistant Secretary of the Navy (Research, Development and Acquisition), in coordination with the Deputy Assistant Secretary of the Navy (C4I/IO/Space), Chief of Naval Operations, and Commandant of the Marine Corps Systems Command		B.1, B.2.a, B.2.b
Air Force Materiel Command, Logistics Readiness Division, in coordination with the Secretary of the Air Force, Installation and Logistics Management	B.1, B.2.a, B.2.b	
Chief of Contracts, U.S. Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate		C

Please provide comments by December 7, 2012.

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Introduction

Objective

Our objective was to determine whether contract deliveries and payments for the Defense Advanced Global Positioning System (GPS) Receiver (contract FA8807-09-C-0002) were made in accordance with contractual agreements and applicable criteria.

Additionally, while addressing our audit objectives, we identified that property accountability needed improvement and that there was inappropriate use of performance-based payments. See Appendix A for a discussion of the scope and methodology related to the objective.

Background on the DAGR Contract

The Defense Advanced GPS Receiver (DAGR) is a handheld, dual-frequency, GPS device that provides guidance capabilities for vehicular, handheld, sensor, and gun laying applications. The DAGR features an antispooing module, simultaneous dual-frequency signal reception, situational awareness, supports laser range finders, and a minimum of 14 hours continuous battery life. Rockwell Collins, Inc. (RCI), in Cedar Rapids, Iowa, produced the DAGR.

The DoD Global Positioning Systems Directorate¹ awarded RCI the DAGR contract FA8807-09-C-0002 on March 10, 2009, with a contract ceiling amount of \$450 million. The DAGR contract also allows the Government to purchase more than 40 DAGR accessories. The RCI website offered numerous DAGR accessories for purchase, including antennas, mounting brackets, cases, and cables. The DAGR contract period of performance expires in FY 2016. Defense Contract Management Agency (DCMA) Twin Cities administers the DAGR contract.

DoD Components purchased six lots of DAGRs and DAGR accessories, with different prices for each lot, as of September 14, 2011. The total obligation amount on the DAGR contract was approximately \$333 million, of which \$260 million was for DAGR devices. Table 1 shows the DAGRs purchased by the Army, Navy, Air Force, Marine Corps, Foreign Military Sales, and other activities, such as DoD Program Offices that field to multiple Military Components.

¹ The Global Positioning Systems Directorate, a joint service effort directed by the Air Force and managed at the Space and Missile Systems Center, Air Force Space Command, Los Angeles Air Force Base, California, is the DoD acquisition office for developing and producing GPS satellites, ground systems, and military user equipment.

Table 1. DAGRs Purchased Under Contract FA8807-09-C-0002

Purchaser	Number of DAGRs Purchased	Value
Army	146,113	\$211,931,169
Navy	1,167	1,941,727
Air Force	3,556	5,770,779
Marine Corps	10,540	16,066,782
Foreign Military Sales	8,329	13,537,853
Other Activities*	7,366	10,973,788
Total	177,071	\$260,222,098

* Includes DAGRs shipped to Mine Resistant Ambush Protected Program Office for embedding on the vehicle for multiple Military Components.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires DoD organizations to establish a management internal control program to identify and promptly correct ineffective internal controls and establish internal controls when warranted. We identified internal control weaknesses associated with the accountability of DAGRs procured by the Military Departments and the contract financing used by the Air Force.

Specifically, Military Department acquisition and logistics personnel did not maintain appropriate accountability records that showed the total DAGRs that they owned. Additionally, the procurement contracting officer, Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, did not follow Federal Acquisition Regulation (FAR) requirements regarding a 6-month time from order to delivery of items that would justify authorization of performance-based payments. We will provide a copy of the report to the senior officials responsible for internal controls in the Departments of the Army, Navy, and Air Force and the Marine Corps.

Finding A. DAGRs Were Delivered and Paid for in Accordance With the Contract and Criteria

Rockwell Collins, Inc. (RCI), delivered DAGRs in accordance with contract terms and the Defense Finance and Accounting Service (DFAS) correctly paid \$27.1 million in DAGR contract transactions we reviewed. As a result, the Military Departments received the DAGRs needed to meet mission requirements.

DAGRs Were Delivered and Accepted According to the Contract

The process for delivering DAGRs was proper and in accordance with contract terms. The DAGR contract required RCI to ship the DAGRs either directly to customers or to the RCI customer-owned property storage (COPS) facility.² The Military Department program managers would provide RCI with specific instructions for shipments out of COPS to military facilities.

The internal controls related to the DAGR delivery process from RCI to DoD was in accordance with contract terms based on walkthroughs of the process. The RCI manufacturing facility and COPS facility provided adequate evidence of delivery for a selected Air Force shipment. For that shipment, RCI provided sufficient evidence of the September 29, 2011, delivery of DAGRs to its COPS facility. For example, RCI provided evidence of delivery of DAGR serial no. 498477 and provided the receiving report and invoice that matched the COPS inventory record. DCMA properly accepted the delivery and completed the receiving report for the shipment in Wide Area Workflow.

The delivery process met contract requirements. Further, there were no indications that the equipment was misdirected or that the Military Components were concerned with the delivery process.

DFAS Columbus Effectively Processed DAGR Contract Payments

DFAS Columbus had an adequate payment process for \$27.1 million in transactions we reviewed. In a nonstatistical sample of 14 transactions, valued at \$27.1 million, DFAS Columbus effectively paid and maintained adequate supporting documentation. The transactions consisted of 13 disbursements valued at \$27,130,053 and one recoupment of funds valued at \$7,749. The 14 transactions contained evidence of a receiving report, an invoice, and a payment voucher, which were the elements needed to process a payment according to DoD Regulation 7000.14-R, "DoD Financial

² A COPS facility refers to a specific, controlled area used for the storage and control of property owned by the contractors' customers, including DoD, while in the possession of the contractor.

Management Regulation,” volume 10, chapter 8, section 0804. Additionally, DCMA properly approved the transactions. See Appendix B for a flowchart of the delivery and payment process. See Appendix C for a list of the 14 transactions selected for review.

Conclusion

RCI delivered DAGRs in accordance with the requirements of the DAGR contract. DCMA personnel inspected and accepted the DAGRs and DFAS Columbus paid the invoices for the items delivered in accordance with the contract. As a result, the Military Departments received the DAGRs needed to meet mission requirements.

Finding B. Property Accountability and Inventory Records Need Improvement

Personnel in the acquisition and logistics offices in each Military Department did not properly account for 75,727 DAGRs, valued at \$114.8 million, that were stored in an RCI warehouse. This occurred because the personnel responsible for the DAGR inventory inappropriately relied on the RCI inventory system and did not enter DAGR accountability information in DoD property accountability records, even though the DAGRs belonged to DoD and DoD policy required the Military Departments to account for them on their records.

Additionally, a discrepancy of approximately 72,550 DAGRs existed between the number of DAGRs delivered by RCI and the total number of DAGRs reported by the Army, Navy, Air Force, and Marine Corps as deployed or stored outside COPS. This discrepancy occurred because acquisition and logistics personnel did not maintain appropriate accountability records that showed the total DAGRs that they owned.

Each Military Department must properly manage its DAGR inventory to provide optimal support to the warfighter. In addition, the DoD accountability records must be easily retrievable and reconcilable to the number produced. During the audit, the Military Departments were working to determine the best way to begin recording and accounting for DAGRs inside and outside COPS.

DAGRs Are Considered Accountable Property

DAGRs are pilferable items that should be controlled, monitored, and maintained in a property accountability system. The Federal Logistics Information System lists the DAGR with a controlled inventory item code of “Y.” The “Y” designation indicates the

DoD defines pilferable items as materials having a ready resale value or civilian application that makes the item especially subject to theft.

item is communications or electronics equipment or contains parts that DoD considers pilferable. DoD defines pilferable items as materials having a ready resale value or civilian application that makes the item especially subject to theft. DAGRs purchased in September 2011 cost DoD \$1,757 each.

Policies and procedures for property accountability in DoD are governed by DoD Instruction 5000.64, “Accountability and Management of DoD Equipment and Other Accountable Property,” May 19, 2011. The Instruction requires pilferable items to have accountable property records established to protect against unauthorized use, disclosure, or loss or when otherwise required by law, policy, regulation, or agency direction. Furthermore, the Instruction states that accountability of property is to be established upon receipt, delivery, or acceptance and maintained within an Accountable Property System of Record (APSR).

The Instruction defines “accountable property” as “property that meets accountability requirements” and is “to be recorded in an APSR” and defines an APSR as “the Government system used to control and manage accountable property records; a subset of existing organizational processes related to the life-cycle management of property; the system that is integrated with the core financial system.” Examples of DoD APSR systems include:

- Army Property Book Unit Supply Enhanced,
- Navy Special Warfare Automated Logistics Information System,
- Air Force Equipment Management System, and
- Marine Corps Stock Control System.

Military Departments Did Not Properly Account for DAGRs

The Military Departments did not properly account for 75,727 DAGRs, valued at \$114.8 million, stored in the RCI COPS warehouse. In December 2011, RCI reported that it had 75,727 DAGRs stored for the Military Departments. Table 2 identifies the breakdown by Military Department.

Table 2. DAGRS in COPS

Military Department	Number of DAGRs
Army	71,160
Navy	458
Air Force	2,766
Marine Corps	1,343
Total	75,727

Our inquiries to the Military Departments about the number of DAGRs stored in COPS, and our review of APSRs showed that personnel in the Military Department acquisition

Personnel in the Military Department acquisition and logistics offices did not record any of the 75,727 DAGRs stored in COPS in the Military Departments’ property accountability systems.

and logistics offices did not record any of the 75,727 DAGRs stored in COPS in the Military Departments’ property accountability systems. During the audit, the Navy and Marine Corps removed all of the

DAGRs from COPS. However, the process for recording Navy and Marine Corps DAGRs was not corrected for future DAGR shipments. The DAGRs will not be entered into an APSR when they are shipped to COPS. The Army and Air Force were developing plans for accounting and recording DAGRs stored in COPS.

DoD Inappropriately Relied on RCI Property System

The Military Department officials inappropriately relied on the RCI COPS inventory system to track DAGR accountability information. The Military Department personnel

indicated they did not record the DAGRs stored in COPS in their APSR because they had not taken physical custody of the property. Personnel from the Army Program Executive Office stated that the RCI Accountable Property System met the intent of DoD Instruction 5000.64.

However, the Instruction states that the property (DAGRs) became DoD property once DCMA representatives accepted the DAGRs. Therefore, the Military Departments were responsible for DAGR accountability upon DCMA acceptance.

The Military Departments were responsible for DAGR accountability upon DCMA acceptance.

Personnel in the Acquisition Resources and Analysis Directorate, Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]), confirmed that DoD must not use the contractor's property system in place of a DoD APSR. Personnel further stated that the DoD APSR must be separate from contractor inventories so that checks and balances could be performed as necessary.

The Military Departments' failure to record DAGRs in the appropriate APSR limited DoD's ability to effectively and efficiently manage inventory and provide optimal support to the warfighter because the APSRs would not show the DAGRs stored in COPS as readily available. The property accountability officers for each Military Department should comply with DoD Instruction 5000.64 and record and track DAGRs in the appropriate APSR.

Discrepancy Between DAGRs Delivered and DAGRs Reported as Stored or Deployed Outside COPS

A discrepancy existed between the total number of DAGRs delivered by RCI³ for the Military Departments and the total number of DAGRs each Military Department reported as being outside COPS (either deployed or stored in a DoD depot or in a base supply system). Specifically, Military Department accountability information did not reconcile to shipment records for 72,550 DAGRs outside COPS. This large discrepancy occurred because acquisition and logistics personnel in each Military Department did not maintain appropriate accountability records.

Military Department accountability information did not reconcile to shipment records for 72,550 DAGRs outside COPS.

Army, Navy, Air Force, and Marine Corps acquisition and logistics personnel provided information on the number of DAGRs they believed were outside COPS. Table 3 provides information on the total DAGRs that RCI produced, those reported as accounted for by the Military Departments as outside COPS, and the difference.

³ These DAGRs included those produced under contract FA8807-09-C-0002 and its predecessor, contract F04701-02-C-0011. We combined the production totals because they were not easily separable in the records.

Table 3. Discrepancies in DAGRs Delivered and Reported, by Military Department

DAGRs	Army	Navy	Air Force	Marine Corps	Total
Delivered by RCI	371,771	7,994	10,426	39,829	430,020
Stored in COPS	71,160	458	2,766	1,343	75,727
Reported by Military Departments*	265,991	884	841	14,027	281,743
Discrepancy	34,620	6,652	6,819	24,459	72,550

*We did not validate the Military Department representation of DAGRs reported.

The discrepancies, and the lack of information about the discrepancies, indicated that the Military Departments were unable to locate or track all the DAGRs that RCI delivered and that DoD deployed or stored outside the RCI COPS. The inability of each Military Department to easily track and locate the DAGRs, which DoD categorizes as a pilferable item, limited DoD's ability to control and use those resources to the fullest extent when needed. The property accountability officers for each Military Department should initiate a comprehensive review and reconciliation to locate all DAGRs and, if necessary, complete the appropriate loss of property forms.

Planned Management Corrective Actions on Accounting for DAGRs

During the audit, the Military Departments were working to determine the best way to begin recording and accounting for DAGRs inside and outside COPS. The Military Departments had not fully developed the specific actions they would need to take to account for all DAGRs but were in the process of developing them.

Recommendations, Management Comments, and Our Response

Redirected Recommendations

As a result of comments from the Deputy Assistant Secretary of the Navy (DASN), Command, Control, Communications, Computers, Intelligence, Information Operations, and Space (C4I/IO/Space), we redirected draft Recommendations B.1, B.2.a, and B.2.b to include coordination with the Chief of Naval Operations and Commandant of the Marine Corps Systems Command.

B. We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), in coordination with the Deputy Chief of Staff of the Army, (G4/Logistics); Assistant Secretary of the Navy (Research, Development and Acquisition), in coordination with the Deputy Assistant Secretary of the Navy (C4I/IO/Space), Chief of Naval Operations, and Commandant of the Marine Corps Systems Command; and Commander, Air Force Materiel Command, Logistics Readiness Division, in coordination with the Secretary of the Air Force, Installation and Logistics Management:

1. Record all Defense Advanced Global Positioning System Receivers delivered to the U.S. Government in the appropriate Government accountable property system of record.

2. Initiate a complete inventory reconciliation to:

- a. Locate and inventory Defense Advanced Global Positioning System Receivers unaccounted for, and**
- b. Complete appropriate loss of property forms if necessary.**

Assistant Secretary of the Army (Acquisition, Logistics, and Technology) Comments

The Deputy Assistant Secretary of the Army (Acquisition Policy and Logistics) responded on behalf of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology [ASA(ALT)]). He agreed with the recommendations and stated that the ASA(ALT) directed the U.S. Army Product Director, Position Navigation and Timing, to move all remaining contractor-owned property supply system materiel into the Logistics Modernization Program and store it in a Defense Logistics Agency Depot. Also, he stated that the Deputy Chief of Staff of the Army (G4/Logistics) would reconcile 100 percent of the Army's DAGRs.

Assistant Secretary of the Navy (Research, Development, and Acquisition) Comments

DASN (C4I/IO/Space) responded on behalf of the Assistant Secretary of the Navy (Research, Development, and Acquisition). He agreed with the recommendations and stated that the Navy Personal Property Policy and Procedures provides guidance to track pilferable items in an accountable property records system. He stated the Navy would perform a complete inventory by June 30, 2013. Also, he stated that the Navy would ensure that all Navy DAGRs were accounted for in accountable property system of record by September 30, 2013.

The Director of the Marine Corps Staff, responding for the Commandant of the Marine Corps, agreed with the recommendations. He stated that the majority of DAGRs were embedded in other weapon systems and would not be visible as stand-alone items within the current accountable property systems of record. He stated that improved visibility of embedded DAGRs would occur during FY 2014.

Our Response

The comments from the Deputy Assistant Secretary of the Army (Acquisition Policy and Logistics) and DASN (C4I/IO/Space) were responsive, and no additional comments were required.

Management Comments Required

The Commander, Air Force Materiel Command, Logistics Readiness Division, did not comment on a draft of this report. We request that the Commander, Air Force Materiel Command, Logistics Readiness Division, provide comments on the final report by December 7, 2012.

Finding C. Use of Performance-Based Payments Was Inappropriate

The procurement contracting officer (PCO), Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, inappropriately authorized \$102.4 million in performance-based payments (PBPs) on the DAGR contract. The contract did not meet FAR requirements regarding a 6-month time from order to delivery of items that would justify authorization of PBPs.

The PCO used performance-based financing on this contract because the previous contract contained PBPs and because of the increased DoD emphasis on the use of this type of financing for fixed-price contracts. However, the use of PBPs on the DAGR contract created:

- an unnecessary cost as the Military Departments paid an estimated \$49,788 in unnecessary accounting processing fees, and
- an administrative burden for DCMA and DFAS in their accounting and reconciliation of 1,800 payments and related transactions.

During the audit, Air Force procurement office personnel took action to discontinue the use of PBPs on the contract.

Processing of Performance-Based Payments

The DAGR contract was a fixed-priced contract that included 15 PBPs, valued at \$102.4 million, that allowed financing to the contractor for goods or services provided. Although the contract contained a ceiling price of \$450 million, not all of the contract items received contract financing payments. DFAS Columbus processed the PBPs according to the requirements in the contract that called for achievement of specific events or accomplishments as defined and valued in advance by the parties to the contract, before the acceptance of goods or services.

As part of its accounting process, DFAS Columbus reversed the PBPs once RCI delivered the DAGRS to allow for the full final payment on each contract line item. DFAS referred to this reversal transaction as a recoupment, or liquidation, of the PBP.

DAGR PBPs Were Inappropriate

The use of performance-based payments on the DAGR contract was inappropriate. FAR section 32, paragraph 104 (d), states: “the contracting officer may provide contract financing in the form of PBPs if the contractor will not be able to bill for the first delivery of products for a substantial time after work must begin . . . (6 months or more).” RCI did not require more than 6 months for the delivery of DAGRs from the time of the PCO

As a result, the Air Force contracting office inappropriately authorized 15 PBPs, with a cumulative value of \$102.4 million.

order. As a result, the Air Force contracting office inappropriately authorized 15 PBPs, with a cumulative value of \$102.4 million.

The use of PBPs was not necessary because the contractor had very little risk and did not need the early financing. We discussed this with personnel in Defense Procurement and Acquisition Policy (DPAP), who stated that the PCO's use of performance-based payments on this type of contract was inappropriate. DPAP personnel reviewed the delivery schedule for DAGRs and stated that they believed the short turnaround time for delivery of the DAGRs in the contract involved little risk and did not justify any type of financing.

RCI delivered the first DAGRs ordered on the contract within 6 days of the contract modification date. For example, DFAS Columbus paid for the DAGRs ordered on contract line item 0100AA on the days as shown in Table 4.

Table 4. Delivery and Payment Schedule for First DAGRs Purchased

Date	Days	Description
March 25, 2009	1	DoD ordered DAGRs from RCI
March 31, 2009	6	RCI delivered contract line item 0100AA and requested payment
April 3, 2009	9	RCI requested a PBP for DAGRs ordered, including contract line item 0100AA
April 29, 2009	35	DFAS Columbus processed the PBP to RCI
May 1, 2009	37	DFAS Columbus paid for the first shipment of DAGRs

According to the FAR guidance, RCI should not have received contract financing. The delivery of DAGRs occurred in only 6 days, well less than 6 months after DoD ordered them. Furthermore, the contract required the contractor to deliver DAGRs within 6 months of the exercised option, with all DAGRs received within 18 months. This clearly did not comply with the requirement of the FAR, which intended the use of financing only when items required substantial leadtimes of 6 months or more.

According to the FAR guidance, RCI should not have received contract financing.

Reasons Why the Air Force Used PBPs

The Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, contracting office personnel stated they used performance-based financing on this contract because the previous contract contained PBPs and because of the increased DoD emphasis on the use of this type of financing for fixed-price contracts. The contracting office personnel in the Directorate stated that an earlier contract the Air Force used to procure DAGRs employed the use of PBPs and they believed continued use of this type of financing on the follow-on contract was justified. They also stated that

they authorized PBPs based on USD(AT&L) guidance that emphasized the increased use of PBPs.

The USD(AT&L) guidance referred to by the contracting personnel included a memorandum issued in November 2000, which stated: “the Department must take maximum advantage of the benefits of PBPs as the preferred means of providing contract financing under fixed-price contracts by making this form of payment the primary and most commonly used form of contract financing.” Furthermore, the memorandum stated that by FY 2005, PBPs should be the most prevalent form of financing used in fixed-price contracts.

Additionally, USD(AT&L) issued the “User’s Guide to Performance Based Payments,” November 30, 2001, with the forward stating: “I encourage program managers, contracting officers, and industry to use this guide to change the existing paradigm and use PBP as their preferred fixed-price contract financing method.”

PBPs Cost Military Departments Unnecessary Processing Fees

The Military Departments paid \$49,788 in unnecessary account processing fees that DFAS Columbus charged to process PBPs to the contractor. DFAS Columbus processed 1,800 transactions at an approximate cost of \$27.66 per transaction.

The Military Departments paid \$49,788 in unnecessary accounting processing fees.

Additionally, the use of PBPs on this contract created an unnecessary administrative burden for DCMA and DFAS Columbus related to the accounting and reconciliation of payments for the contract. The PCO’s use of PBPs forced DFAS Columbus to monitor the recoupment of the PBPs each time the DAGRS were delivered, a time- and resource-consuming task.

Improvements to PBP Guidance

The DPAP staff recognized that many contracting and acquisition professionals were not familiar with the steps necessary to create an effective PBP arrangement. DPAP staff stated that unlike progress payments, which were incorporated simply by including the appropriate clause in the contract, PBPs required considerable thought and effort by the DoD contracting officer and the contractor to construct the detailed PBP arrangements.

As a result, DPAP officials developed a “Performance Based Payments Guide” to assist users based on lessons learned over the past 16 years of using PBPs. The guide is in draft and covers numerous topics, including contract financing and PBP basics and determining when PBPs are practical. DPAP personnel stated they planned to finalize the Guide after a proposed Defense Federal Acquisition Regulation Supplement Case (2011-D045) becomes final.

The Chief of Contracts, U.S. Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, should provide contracting personnel with training on when and how to use performance-based payments before awarding any additional contracts with performance-based payment financing.

Contracting Officer Took Action and Suspended the Use of PBPs for DAGR Purchases

As a result of the audit team's inquiry into the use of PBPs, the Air Force contracting officer took action to discontinue their use on the DAGR contract where deliveries would be made within 6 months or less. Specifically, the Air Force contracting officer reached an agreement with RCI to suspend the use of PBPs for DAGR purchases.

The contracting officer stated that because of the short leadtime, PBPs were not needed and suspension was necessary. Additionally, the contracting officer stated he was unaware of the impact to DFAS in making the PBP payments until the audit team informed him of the cost and administrative burden.

Recommendation, Management Comments, and Our Response

Redirected Recommendation

As a result of management comments, we redirected Recommendation C to the Chief of Contracts, U.S. Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate.

C. We recommend that the Chief of Contracts, U.S. Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, provide contracting personnel with training on when and how to use performance-based payments before awarding any additional contracts allowing performance-based payment financing.

Chief of Contracts, U.S. Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, Comments

The Chief of Contracts, U.S. Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, agreed with the recommendation even though he took issue with "the calculation of the 'unnecessary accounting processing fees' figure of \$49,788" because some account processing fees were required for the appropriate payments and, he was not sure how the auditors arrived at the number of transactions. However, he stated that training would be provided to contracting personnel on how and when to use performance-based payment financing. Further, he stated the training would be provided by October 31, 2012.

Our Response

The comments from the Chief of Contracts, U.S. Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, were responsive, and no additional comments were required. Regarding the Chief of Contracts comments on the processing fees, the audit team excluded the invoice payment transactions when calculating the unnecessary performance-based payments and recoupments. On November 5, 2012, the Chief of Contracts informed us that he provided performance-based payment finance training to contracting personnel on October 23, 2012.

Appendix A. Scope and Methodology

We conducted this performance audit from August 2011 through August 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine whether contract deliveries for the Defense Advanced Global Positioning System Receiver (DAGR) (contract FA8807-09-C-0002) were made in accordance with contractual agreements and applicable criteria, we reviewed the internal controls related to the DAGR delivery process from RCI to DoD. Specifically, we performed walkthroughs of the delivery process. We reviewed the evidence of a DAGR delivery to the Air Force. We interviewed Military Component personnel concerning the delivery process.

We selected a nonstatistical sample of 14 transactions, valued at \$27.1 million, to ensure that DFAS Columbus made payments in accordance with contractual agreements and applicable criteria. Specifically, we reviewed the transactions to ensure that DFAS Columbus maintained adequate supporting documentation, which included reviewing the contract file, invoices, and receiving reports.

We conducted interviews with RCI, DCMA, and DFAS personnel to obtain details on the DAGR production, delivery, and payment process. We also gathered and reviewed RCI property storage records and compared those to the Military Department APSR records to identify potentially unaccounted for DAGRs.

We conducted interviews with the Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, contracting personnel to obtain details on the awarding of the DAGR contract and the justification for the type of financing used. We also coordinated with DPAP, DCMA, and DFAS personnel regarding the impact and use of PBPs.

Use of Computer-Processed Data

We relied on computer-processed data from the Electronic Data Access (EDA) system, Wide Area Workflow (WAWF), and the Mechanization of Contract Administration Services (MOCAS). The EDA system stores contracts, contract orders, and contract modifications. The WAWF system is a secure web-based system for electronic submission and processing of receiving reports and invoices. MOCAS collects transaction data related to payments and recoupments on the contract. We queried MOCAS to determine the amount of transactions that occurred on the DAGR contract.

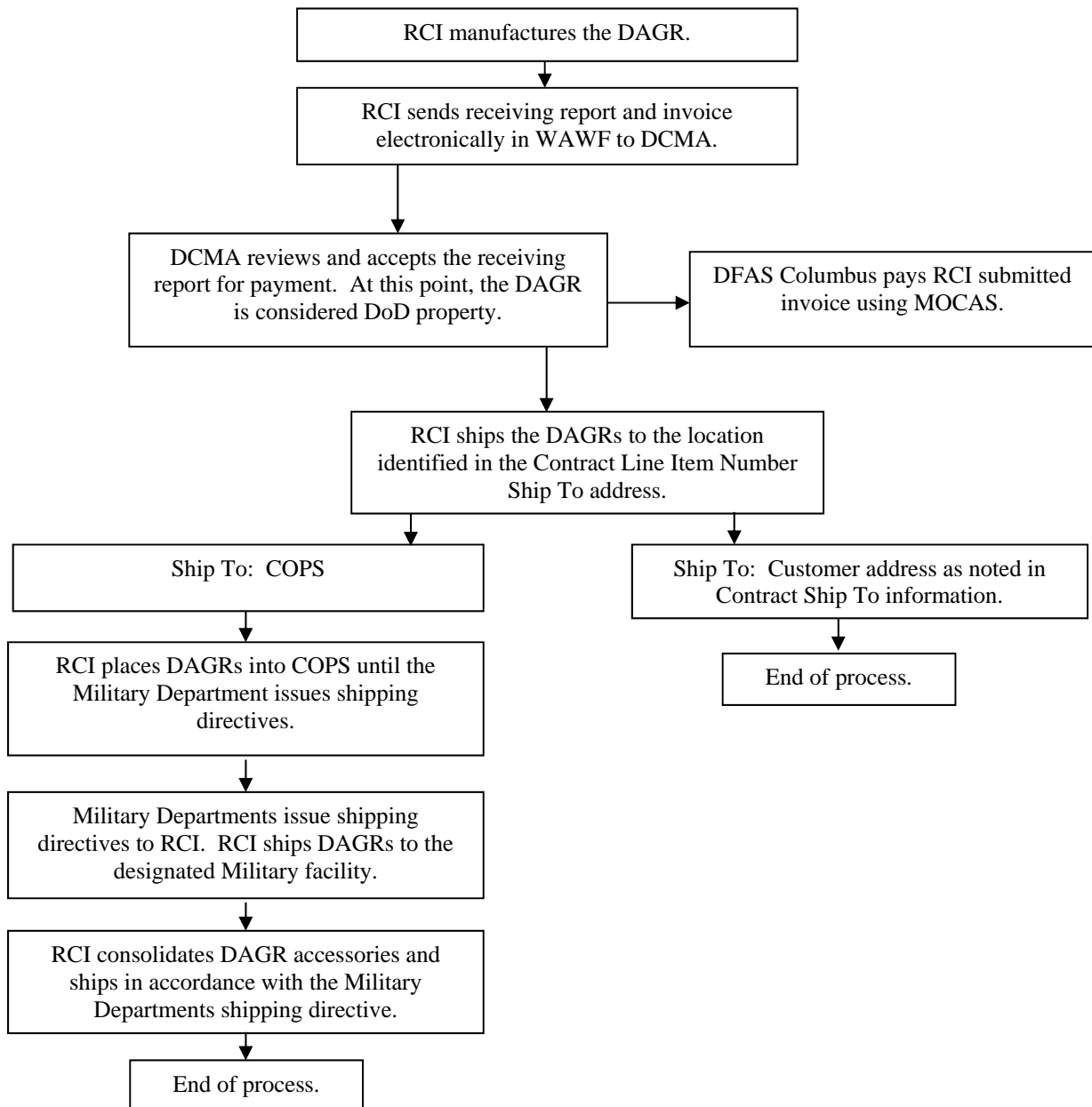
We compared the contracts, orders, and modifications obtained from the EDA system to the contracts, orders, and modifications in the procurement contracting officer's contract

files and verified that the documentation we obtained from the EDA system was accurate. We used the information from WAWF to determine whether the transactions in the MOCAS queries were complete and accurate and should have been processed. As a result of our analysis, we determined that the data within the EDA system, WAWF system, and MOCAS were sufficiently reliable for our findings and conclusions.

Prior Coverage

No prior coverage has been conducted on DAGRs during the last 5 years.

Appendix B. DAGR Delivery and Payment Process



DAGR = Defense Advanced GPS Receiver
DFAS = Defense Finance and Accounting Service
RCI = Rockwell Collins, Inc.

DCMA = Defense Contract Management Agency
MOCAS = Mechanization of Contract
Administration Services

Appendix C. Audit Sample of DAGR Contract Transactions

We nonstatistically selected and reviewed 14 DAGR contract transactions that DFAS Columbus processed. The transactions consisted of 13 payments valued at \$27.1 million and one recoupment of funds valued at \$7,749. The DAGR contract transactions included PBPs, invoice payments on contract line item numbers, collections to recoup PBPs, and accounting adjustments. Table C shows the nonstatistical sample of DAGR contract transactions reviewed.

Table C. Audit Sample of DAGR Contract Transactions

#	Shipment Number	Transaction Description	Net Amount	Absolute Amount
1	PBPA009	PBP for DAGRs	\$981,642	\$981,642
2	PBPA009	PBP for DAGRs	12,111,154	12,111,154
3	PBPA009	PBP for DAGRs	308,795	308,795
4	PBPA009	PBP for DAGRs	1,668,658	1,668,658
5	PBPA009	PBP for DAGRs	1,028,313	1,028,313
6	PBPA009	PBP for DAGRs	233,659	233,659
7	PBPA009	PBP for DAGRs	8,531,042	8,531,042
8	PBPA009	PBP for DAGRs	1,516,364	1,516,364
9	CRC2213	Shipment of Army RA-1 Antenna	457,520	457,520
10	SER9064	DAGR Repairs and Scrapping	173,847	173,847
11	CRC1433	Recoupment of PBP for the shipment of U.S. Air Force Molle Flip Case	(7,749)	7,749
12	CRC1433	Shipment of U.S. Air Force Molle Flip Case	49,712	49,712
13	REF1658	Repayment of DAGR PBP Recoupment	23,715	23,715
14	CRC2427	Shipment of RA-1 Cable	45,632	45,632
Absolute Value Total				\$27,137,802

CLIN = Contract Line Item Number

DAGR = Defense Advanced GPS Receiver

PBP = Performance-Based Payment

The transactions contained evidence of a receiving report, invoice, and payment voucher, which were the elements needed to process a payment. DFAS recouped the \$7,749 for the flip case in accordance with the requirements contained in the contract.

Assistant Secretary of the Army (Acquisition, Logistics, and Technology) Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

SEP 26 2012

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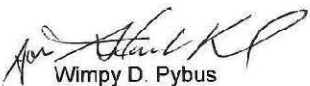
MEMORANDUM FOR U.S. ARMY AUDIT AGENCY, INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE, 4800 MARK CENTER DRIVE, ALEXANDRIA,
VIRGINIA 22350-1500.

SUBJECT: Deliveries and Payments for the Defense Advanced GPS Receivers Met
Contract Terms, but Property Accountability Needed Improvements (Project No. D2011-
D000DC-0259.000)

1. Deputy Assistant Secretary of the Army Acquisition, Logistics and Technology has
reviewed the IG draft report and concurs with IG recommendations found at the
enclosure.

2. The point of contact is [REDACTED] at [REDACTED]
[REDACTED]

End


Wimpy D. Pybus
Deputy Assistant Secretary of the Army
(Acquisition Policy and Logistics)

ASSISTANT Secretary of the Army (Acquisition, Logistics, and Technology)
Deliveries and Payments for the Defense Advanced GPS Receivers Met Contract
Terms, but Property Accountability Needed Improvements,
(Project No. D2011-D000DC-0259.000)

Recommendation B1:

Record all Defense Advanced Global Positioning System Receivers delivered to the U.S. Government in the appropriate Government accountable property system of record.

Action Taken:

ASA ALT has directed the U.S. Army Product Director, Position Navigation and Timing to move all remaining contractor owned property supply system materiel into the Logistics Modernization Program and store in a Defense Logistics Agency Depot.

Recommendation B2a&b:

Initiate a complete inventory reconciliation to:

- a. Locate and inventory Defense Advanced Global Positioning Systems Receivers unaccounted for, and
- b. Complete appropriate loss of property forms if necessary

Action Taken:

ASA ALT has initiated a 100% Army wide data call (by the DCS G4) to reconcile the DAGRs Army wide.

Encl

Assistant Secretary of the Navy (Research, Development, and Acquisition) Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(RESEARCH, DEVELOPMENT AND ACQUISITION)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

01 October 2012

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Department of Navy Response to DoDIG D2011-D000DC-0259.000

In response to the DoD draft report "Deliveries and Payments for the Defense Advanced GPS Receivers Met Contract Terms, But Property Accountability Needed Improvements" dated 28 August 2012, the Navy's input is provided in attachment 1 and the Marine Corps input is provided in attachment 2.

My point of contact for this matter is [REDACTED] He can be reached by telephone at [REDACTED]

A handwritten signature in blue ink, appearing to read "John Zangardi", is positioned above the printed name.

John Zangardi
Deputy Assistant Secretary of the Navy
Command, Control, Communications,
Computers, Intelligence, Information
Operations and Space

ATTACHMENTS:
As stated

**DODIG DRAFT REPORT DATED 28 AUG 2012
DODIG D2011-D000DC-0259.000**

**"DELIVERIES AND PAYMENTS FOR THE DEFENSE
ADVANCED GPS RECEIVERS MET CONTRACT TERMS,
BUT PROPERTY ACCOUNTABILITY NEEDED
IMPROVEMENTS"**

US NAVY COMMENTS TO THE DODIG RECOMMENDATIONS

RECOMMENDATIONS:

B. We recommend that the Assistant Secretary of the Army (Acquisition, Technology, and Logistics), in coordination with the Deputy Chief of Staff of the Army, G4/Logistics; Assistant Secretary of the Navy (Research, Development and Acquisition), in coordination with the Deputy Assistant Secretary of the Navy, C4I/Space; Commander Air Force Materiel Command, Logistics Readiness Division, in coordination with the Secretary of the Air Force, Installation and Logistics Management; and the Commandant of the Marine Corps Systems Command, in coordination with the Deputy Commandant, Marine Corps Installations and Logistics:

USN RESPONSE: Department of the Navy coordination does not include the Chief of Naval Operations. Recommend the following:

B. We recommend that the Assistant Secretary of the Army (Acquisition, Technology, and Logistics), in coordination with the Deputy Chief of Staff of the Army, G4/Logistics; Commander Air Force Materiel Command, Logistics Readiness Division, in coordination with the Secretary of the Air Force, Installation and Logistics Management; and the Assistant Secretary of the Navy (Research, Development and Acquisition), in coordination with the Deputy Assistant Secretary of the Navy (C4I/IO/Space), Chief of Naval Operations, and Commandant of the Marine Corps Systems Command:

RECOMMENDATION B.1.: Record all Defense Advanced Global Positioning System Receivers (DAGR) delivered to the U.S. Government in the appropriate Government accountable property system of record (APSR).

USN RESPONSE: Concur. SECNAVINST 7320.10A, "Department of the Navy (DoN) Personal Property Policy and Procedures" provides the guidance necessary to track pilferable items in an appropriate accountable property records system. The Navy will ensure that all USN DAGRs are accounted for in APSR by 4th QTR FY13.

ATTACHMENT 1

RECOMMENDATION B.2.a.:

2. Initiate a complete inventory reconciliation to:

a. Locate and inventory Defense Advanced Global Positioning System Receivers unaccounted for, and

USN RESPONSE: Concur. The Navy will coordinate an inventory and ensure that all DAGRs are accounted for. A complete inventory will be finalized by 3rd QTR FY13

RECOMMENDATION B.2.b.:

b. Complete appropriate loss of property forms if necessary.

USN RESPONSE: Concur.

ATTACHMENT 1



DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
3000 MARINE CORPS PENTAGON
WASHINGTON, DC 20350-3000

IN REPLY REFER TO:
7500
DMCS-A
SEP 21 2012

From: Commandant of the Marine Corps
To: Assistant Secretary of the Navy (Research, Development
and Acquisition)

Subj: DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL
DRAFT AUDIT REPORT D2011-D000DC-0259.000, DELIVERIES
AND PAYMENTS FOR THE DEFENSE ADVANCED GPS RECEIVERS
MET CONTRACT TERMS, BUT PROPERTY ACCOUNTABILITY NEEDED
IMPROVEMENTS, DATED AUGUST 28, 2012

Ref: (a) DODIG Memo dtd August 28, 2012

Encl: (1) Marine Corps Responses

1. Official responses required by the reference are provided at the enclosure.
2. The Marine Corps appreciates the opportunity to respond to the report.
3. If you have any questions about the responses, please contact [REDACTED]

W. J. WILLIAMS
Director, Marine Corps Staff

Copy to:
NAVJCSGEN (N11)
DC, I&L
CMDR, MCSC

ATTACHMENT 2

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**DODIG DRAFT REPORT DATED 28 AUG 2012
DODIG D2011-D000DC-0259.000**

**“DELIVERIES AND PAYMENTS FOR THE DEFENSE
ADVANCED GPS RECEIVERS MET CONTRACT TERMS,
BUT PROPERTY ACCOUNTABILITY NEEDED
IMPROVEMENTS”**

US MARINE CORPS COMMENTS TO THE DODIG RECOMMENDATIONS

RECOMMENDATIONS:

B. We recommend that the Assistant Secretary of the Army (Acquisition, Technology, and Logistics), in coordination with the Deputy Chief of Staff of the Army, G4/Logistics; Assistant Secretary of the Navy (Research, Development and Acquisition), in coordination with the Deputy Assistant Secretary of the Navy, C4I/Space; Commander Air Force Materiel Command, Logistics Readiness Division, in coordination with the Secretary of the Air Force, Installation and Logistics Management; and the Commandant of the Marine Corps Systems Command, in coordination with the Deputy Commandant, Marine Corps Installations and Logistics:

RECOMMENDATION B.1: 1. Record all Defense Advanced Global Positioning System Receivers delivered to the U.S. Government in the appropriate Government accountable property system of record.

USMC RESPONSE: Concur. Per MarAdmin 329/12, “Equipment Accountability and Visibility: Marine Corps Enterprise Ground Equipment Manager”, Marine Corps Systems Command (MCSC) and Marine Corps Logistics Command (MCLC) are tasked with ensuring accurate on-hand quantities are recorded in the accountable property system of record (APSR) upon acceptance of material into the Marine Corps inventory.

A coordinated effort between MCLC and MCSC to account for USMC DAGR assets is currently in progress with expected completion in 2nd Qtr FY13.

RECOMMENDATION B.2.a:

2. Initiate complete inventory reconciliation to:

a. Locate and inventory Defense Advanced Global Positioning System Receivers unaccounted for, and

USMC RESPONSE: Concur. A coordinated effort between MCLC and MCSC to account for USMC DAGR assets is currently in progress with expected completion in 2nd Qtr FY13. MCLC will perform an unscheduled inventory of on-hand assets to verify accuracy of APSR prior to 31 October 2012.

Additional comments: The majority of DAGR assets are fielded as SL3/embedded in other weapon system platforms and will not be visible as stand-alone items within the

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current accountable property systems of record. Anticipate improved visibility of embedded TAMCNs once GCSS-MC is fully on-line in FY14.

RECOMMENDATION B.2.b.:

- b. Complete appropriate loss of property forms if necessary.

USMC RESPONSE: Concur.

UNCLASSIFIED

U.S. Air Force, Space and Missile Systems Center, GPS Directorate, Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS SPACE AND MISSILE SYSTEMS CENTER (AFSPC)
LOS ANGELES AIR FORCE BASE, CALIFORNIA

09 Oct 12

MEMORANDUM FOR DOD IG

FROM: SMC/GPK
483 N. Aviation Blvd
El Segundo CA 90245-2808

SUBJECT: Management Response to the DoD IG "Deliveries and Payments for the Defense Advanced GPS Receivers Met Contract Terms, but Property Accountability Needed Improvements Audit, (Project No. D2011-D000DC-0259.000)"

1. In accordance with AFI 65-601, Audit Reporting Procedures, SMC/GPS or SMC/CC is providing the following management comments to the subject audit.

Recommendation C. We recommend that the Director of Contracts, U.S. Air Force, Space and Missile Systems Center, Global Positioning Systems Directorate, provide contracting personnel with training on when and how to use performance-based payments before awarding any additional contracts allowing performance-based payment financing.

Management Comments: Concur. While we may take issue with some aspects of this report (e.g., the calculation of the "unnecessary accounting processing fees" figure of \$49,788 since there would have been some accounting processing fees required for the appropriate payments, and we're not sure how the auditors arrived at the number 1,800 for the DCMA and DFAS accounting and reconciliation payments and related transactions), we concur with Recommendation C and training will be provided to contracting personnel no later than 31 October 2012 on when and how to use performance-based payments before awarding any additional contracts allowing performance-based payment financing.

2. For questions, please contact the undersigned at [REDACTED]

TIMOTHY E. PINK
Chief of Contracts
Global Positioning Systems Directorate

INTEGRITY, SERVICE, EXCELLENCE



Inspector General Department of Defense

